



SANDRA SHEWRY  
Director

State of California—Health and Human Services Agency  
**Department of Health Services**



ARNOLD SCHWARZENEGGER  
Governor

October 17, 2006

Dear Interested Parties:

**HIV/AIDS DISEASE MANAGEMENT PILOT PROGRAM REQUEST FOR PROPOSAL (RFP) 06-55519 ADMINISTRATIVE BULLETIN 3, ADDENDUM 2**

Administrative Bulletin Number 3, Addendum 2 issued by the California Department of Health Services (CDHS), Office of Medi-Cal Procurement (OMCP), announces changes and provides information to the Request for Proposal (RFP) HIV/AIDS Disease Management Pilot Program activities and timeline. CDHS provides notification to interested parties of the following:

1. The **Proposal Submission due date** for the HIV/AIDS Disease Management Pilot Program has been changed to **November 13, 2006**. This is due to additional information being provided in the Question and Answers, and changes in payment provision that may impact your proposal. Please note that proposals should not be delivered on November 10, 2006. It is a State Observed Holiday and our office will be closed.
2. The **official response to Interested Parties questions numbers 10 and 33** submitted to OMCP. The responses to all other questions were provided via Administrative Bulletin 2, Addendum 1 released on October 2, 2006.
3. **The enclosure (Addendum 2) incorporates changes to the RFP**; it includes changes to Exhibit B, Attachment I, Special Payment Provisions.

These changes are being made to clarify sections in the RFP. Within the text of the documents, changes are indicated with an underline or a strikethrough to denote revisions.

In order to configure the Internet version of the RFP to accurately reflect the current requirements and considerations, remove the existing page and insert the appropriate replacement page as indicated in the following table. The website for the electronic version is [www.dhs.ca.gov/omcp](http://www.dhs.ca.gov/omcp) .

### ONLINE AND CD VERSION

To update the RFP, use the instructions in the following chart. Any changes made to the RFP are published as replacement pages in the RFP.

| REMOVE EXISTING PAGES  | REPLACEMENT PAGES   |
|--|---|
| Exhibit B, Attachment I, Special Payment Provisions, page 3 of 5 | Exhibit B, Attachment I, Special Payment Provisions, page 3 of 5. Item 8.B, Savings Guarantee and Calculation Methodology: Changed DMO's guarantee from proportionate to dollar-for-dollar. (No material change, just a language clarification.)<br><br>Exhibit B, Attachment I, Special Payment Provisions, page 3 of 5. Item 8.C, Savings Guarantee and Calculation Methodology: Amended to add "PMPM"; modified population and inflation language. |
| Exhibit B, Attachment I, Special Payment Provisions, page 4 of 5 | Exhibit B, Attachment I, Special Payment Provisions, page 4 of 5. Item 8. Savings Guarantee and Calculation Methodology: <ul style="list-style-type: none"><li>• Item D - Inserted new language</li><li>• Items D and E - Changed to E and F</li><li>• Item F - Deleted</li></ul>   |
| Exhibit B, Attachment I, Special Payment Provisions, page 5 of 5 | Exhibit B, Attachment I, Special Payment Provisions, page 5 of 5. Item 8. Savings Guarantee and Calculation Methodology: Deleted outline item G.  |

The official response to questions 10 and 33 are as follow:

Question 10:

This section states that the DMO “shall guarantee to CDHS a zero percent increase in net medical costs for Medi-Cal beneficiaries who are eligible for the DM pilot project.” First, there is no definition of net medical costs. HIV/AIDS therapy changes at least two times per year based on ongoing pharmaceutical and therapeutic studies. New drugs are also approved by the FDA that have an impact on the cost of care. HIV care has never been in the most optimal setting of zero percent increase. First, net medical costs need to be well-defined or all new therapies and pharmaceuticals need to be excluded from the savings calculation.

Second, the same sentence bases the zero percent increase in medical costs to “eligible” members, some of whom will have not been enrolled and managed.

Third, the DMO is at risk for full savings according to 8.A from start of the contract. During the ramp-up phases of new programs it is difficult if not impossible for the DMO to achieve savings.

Answer:

Net medical costs shall include all Medi-Cal claims payments and the DMO’s fees with an adjustment for inflation.

While best-practice therapies may change somewhat, the adjustment for inflation will adequately account for this factor.

CDHS recognizes that the pre/post evaluation method may create a disincentive for the DMO to promote relatively expensive best practice drug therapies. To eliminate this disincentive, an addendum will be added to Exhibit B. Attachment I, Special Payment Provisions, Section 8, Savings Guarantee and Calculation Methodology. The population will be stratified for comparison into two groups, those who are receiving HIV-specific Antiretroviral Therapies (HIV-ART) and those who are not. The purpose and the design of the methodology will be such that the DMO will not be penalized in the calculation for causing a Member to begin HIV-ART. This section will also be changed to state that only enrolled Members will be included in the calculation.

The DMO is at full risk from the start of the operational phase of the contract. However, the four-month implementation phase will not be included in the calculation. Also, the calculation will be averaged over the three-year life of the program, which gives the DMO time to make up for a slow start.

Question 33:

This section addresses the savings guarantee and calculation methodology with respect to adjustments to baseline total costs. Can DHS describe the process for baseline adjustment to account for inflation and any other factors? Will DHS use historic trend rates and mechanisms to adjust for program and policy changes during the intervention period? At what point does DHS anticipate all these factors being known?

Answer:

CDHS, in conjunction with an independent third-party evaluator, will use historical trend rates to adjust for inflation. CDHS may use mechanisms to adjust for program and policy changes during the intervention period if CDHS determines there is a need. The details of the methodology will be determined during the implementation phase of the contract. The methodology details will be determined by CDHS in conjunction with the independent third-party evaluator. The contractor's feedback will be considered during this process. The contractor's feedback will be considered during this process.

Proposers have five (5) working days from the issue of this transmittal to the postmark date of the proposers' response to submit any objections to the Addendum or Proposers' questions to the address below:

RFP 06-55519 Q & A  
Attn: Ramonda Ramos or Lenatte Blouin  
California Department of Health Services  
Office of Medi-Cal Procurement, Mail Station 4200  
HIV/AIDS Disease Management Pilot Program  
P.O. Box 997413  
Sacramento, CA 95899-7413

Thank you for your continued interest in the HIV/AIDS Disease Management Pilot Program procurement effort.

If you should have further questions, please contact Ramonda Ramos or Lenatte Blouin, lead analysts assigned to this procurement, at (916) 552-8006.

Sincerely,

Original signed by *Donna Martinez*

Donna Martinez, Chief  
Office of Medi-Cal Procurement

Contractor's Name  
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**Exhibit B, Attachment I**  
**Special Payment Provisions**

the Contractor's request to repay the recoverable amounts in monthly installments over a period of consecutive months not to exceed six months.

- C. If CDHS determines that any other erroneous or improper payment not mentioned above has been made to the Contractor, CDHS may recover the amount determined by an offset to the case management fee made to Contractor. If the recovery of the full amount at one time imposes a financial hardship on the Contractor, CDHS at its discretion, may grant the Contractor's request to repay the recoverable amounts in monthly installments over a period of consecutive months not to exceed six months.

**7. Invoicing and Payment Additional Requirements**

The Invoicing and Payment requirements stated in Exhibit B, *Budget Detail and Payment Provisions*, Provision 1, titled *Invoicing and Payment*, paragraph C, are minimum standards and additional billing information may be required as the project develops. Any additional requirements will be considered normal business operation and not require a contract amendment.

**8. Savings Guarantee and Calculation Methodology**

- A. The Disease Management Organization (DMO) shall guarantee California Department of Health Services (CDHS) a zero percent increase in net medical costs for Medi-Cal beneficiaries who are eligible for the HIV/AIDS Disease Management Pilot Program (DMPP). Restated, the DMO guarantees that the program will create savings equivalent to the DMPP contracted DMO fees. One hundred percent of the DMO's fees will be at risk for this guarantee of cost-neutrality. If CDHS terminates the contract in the first 16 months, the Contractor will be held to no guarantee. If CDHS terminates the contract after 16 months but before 28 months, the cost-neutrality guarantee will be changed to a guarantee to limit the net increase of medical costs to five percent. If CDHS terminates the contract after 28 months but before 43 months, the cost-neutrality guarantee will be changed to a guarantee to limit the net increase of medical costs to two and one-half percent.
- B. The DMO's guarantee shall be dollar-for-dollar ~~proportionate~~, in that, as needed, the DMO shall refund its fees in the same dollar amount ~~proportion~~ that the cost-neutrality target is missed. However, the DMO will not be liable for more than 100% of its fee.
- C. DMPP savings are calculated according to a comparison of total PMPM costs for the DMPP eligible ~~Member eligible~~ population for the baseline period with total PMPM costs for the Member ~~eligible~~ population in each contract year. The

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**Exhibit B, Attachment I**  
**Special Payment Provisions**

baseline period costs will be adjusted to account for inflation and any other factors that are determined by CDHS or its third-party evaluator to be relevant. Inflation will be calculated through an analysis of historical trends. Costs ~~by averaging (mean) the year-to-year inflation of actual claims costs for the eligible population for the three calendar years prior to the first contract year. Costs~~ for the contract period are determined by examining actual costs in the Contract period after a sufficient lag time for run-out claims. Actual costs in the contract period will include the Per Member Per Month fees paid to the contractor for DM services.

D. To avoid discouraging the Contractor from promoting HIV-specific Antiretroviral Therapies (HIV-ART), the cost neutrality calculation will be divided into two groups, those receiving HIV-ART and those not receiving HIV-ART. For example, a person who is receiving HIV-ART from the beginning of the program will be compared against an average baseline of cost and an adjustment for inflation calculated specifically for those receiving HIV-ART. The same will be true for those not receiving HIV-ART. For Members who initiate HIV-ART during the Contract period, their costs prior to starting HIV-ART will be included with other Members who do not receive HIV-ART, while their costs after starting HIV-ART will be included with other Members receiving HIV-ART. Because costs are compared on a PMPM basis, this method adjusts for the amount of time the Member received HIV-ART during the program.

~~D.E.~~ The determination of claims costs, whether in the baseline or the Contract period, shall follow the same algorithm, with the exception of the differences noted above. Cost comparisons shall be made on a PMPM basis, using the formula: *Costs divided by Member Months*. Costs in the Contract period will be included for Member months when that Member was enrolled in the DM Program.

~~E.F.~~ Per Member costs of HIV/AIDS DMPP Members ~~eligibles~~ will include HIV/AIDS DMPP DMO fees. Costs in the operations period of the contract will be included for months when that Medi-Cal beneficiary was eligible for the HIV/AIDS DMPP. (See Sample Calculation of Savings below.) ~~paid (the fee is only paid for HIV/AIDS DMPP Members, but for the guarantee calculation, the fee total will be added to the total medical costs of HIV/AIDS DMPP eligibles in the pilot areas and averaged).~~

~~F. Costs in the operations period of the contract will be included for months when that Medi-Cal beneficiary was eligible for the HIV/AIDS DMPP.~~

~~G. Please note that the vendor's target used in savings calculation is based on expenses for the entire HIV/AIDS DMPP-eligible population in the pilot area, and~~

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**Exhibit B, Attachment I**  
**Special Payment Provisions**

~~not just the HIV/AIDS DMPP Members who receive services. (See Sample Calculation of Savings below.)~~

**9. Sample Savings Calculation**

|  | <b>Base Year</b> | <b>First Contract Year</b>          | <b>Comments</b>  |
|--|------------------|-------------------------------------|--|
| <b><i>Baseline and Contracted Fees and Guarantee</i></b> |                  |                                     |  |
| Claims cost for first baseline/contract year             | \$500            | \$550                               | PMPM costs are measured from the first day of the contract/baseline year or the first day of the first month the Member generated a claim, if the beneficiary was not a Member for the full year                                   |
| Vendor fees  |                  | \$40 per eligible per month         | Actual PMPM fee of \$50 total for DMPP Member-months and divided by DMPP eligible-months. For the purposes of this sample, Member-months equal 80 percent of eligible-months based on a hypothetical enrollment rate of 80 percent |
| Vendor guarantee   |                  | 0.0% net                            | Negotiated (net refers to total costs with vendor fees included)   |
| <b><i>Calculated Performance</i></b>                     |                  |                                     |  |
| Total actual claims plus inflation adjustment            | \$500            | \$550                               | Calculated (first contract year includes 10 percent inflation adjustment)  |
| Total actual claims cost plus DM fees                    | \$500            | \$590                               | Claims plus DM fees (first contract year plus inflation adjustment and \$40 DM fee)  |
| <b><i>Did the Vendor Hit the Target</i></b>              |                  |                                     |  |
| Vendor performance vs. the target                        |                  | \$590 - performance; \$550 - target | Target is baseline year claims cost plus a 10 percent hypothetical inflation adjustment. Performance is actual contract year claims cost plus the vendor fees.   |
| Amount of miss   |                  | \$40                                | Vendor refunds 100 percent of their fees   |